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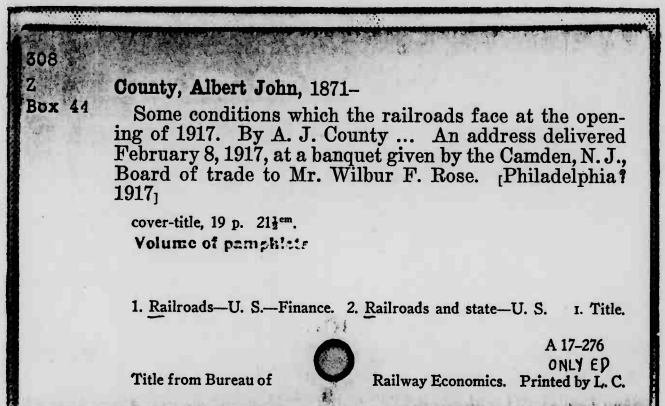

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# SOME CONDITIONS WHICH THE RAILROADS FACE AT THE OPENING OF 1917.

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By
A. J. COUNTY,
Vice-President in Charge of Accounting,
Pennsylvania Railroad Company.

**"Give the Pennsylvania Railroad the average freight rates charged by the Government-owned German and French lines, and this Company could pay American wages to its employes, war prices for all its materials, and 40 per cent. a year dividends to its stockholders!"**

An address delivered February 8, 1917, at a banquet given by the Camden, N. J., Board of Trade to Mr. Wilbur F. Rose.

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Good citizenship is beginning to display a healthy interest in the affairs of the common carriers. We are no longer asked what laws will curb the railroads, but what is their condition and how they can be helped. We are asked what result is the country getting for the heavy expenditures incurred for public regulation? We are asked why the railroads are constructing so little new mileage; why there is a scarcity of cars; why there is congestion of freight; why there is lack of facilities?

In short, are the railroads in a state of preparedness and is their credit sound?

My answer to this latter question is: "No; because of three barriers which I will consider later."

Citizens recognize that the railroads are owned by the people and their institutions; that they are about the heaviest taxpayers and largest consumers of all kinds of material; that they are the largest employers of labor; that they pay the highest wages of any great national systems in the world, and that they have the lowest freight rates; that they perform the most economical public service with the lowest capitalization per mile of the railroads of any country on earth.

## Would Government Ownership Pay?

Citizens appreciate that were the freight rates of this country on a parity with those charged on the most successful national systems in Europe, and were the same wages paid to railroad employes here as are paid on any Government or privately owned railroads elsewhere, our railroads could afford to carry passengers for nothing, could pay much larger dividends and taxes, and would still be in a very much stronger financial condition in every respect.



**Give the Pennsylvania Railroad the average freight rates charged by the Government-owned German and French lines, and this Company could pay American wages to its employes, war prices for all its materials, and 40 per cent. a year dividends to its stockholders!**

That is government ownership worked out in practice. Does good citizenship demand it in this country?

## What Good Citizenship Does Demand.

Good citizenship demands that the railroads be kept in the strongest possible condition to serve the country in war or peace. It recognizes that their trained organization is the first available arm of the country in any national emergency or peril, and that the railroads are at the immediate call of the nation.

Were that call made to-day, it would be found that railroads are, "First in the thoughts of their countrymen!"

## Three Barriers to Railroad Preparedness that Must be Removed.

But are our railroads to-day in an effective condition to serve the country

and its industries in peace or war, and is their credit sufficiently strong to keep them in that condition?

They have, in my judgment, three barriers to cross that will require the most impartial statesmanship and the best administrative experience.

First, they must get larger earnings, and thus place their credit on a sound basis to meet the increasing costs of materials, wages and taxes, and especially to attract the new capital needed to expand their facilities and equipment.

Second, they must find a means whereby neither the companies nor their employes can stop the transportation service of the country, and whereby all differences as to wages and working conditions can be settled without bringing suffering and loss to the general body of citizens and to the business of the nation.

Third, means must be found to remove the obstacle of confusing and conflicting laws and regulations of the various States and the Federal Government. This must be brought about either by co-operation between the States, or through some other method by which wasteful laws and limitations on inter-



state traffic, and on the earnings and credit of interstate carriers, may be removed; or by which the National Government may be brought in to relieve the railroads from their embarrassment and uncertainty.

## The Railroads Amateurs at War Profits.

As to the first obstacle affecting railroad earnings and credit, the results for 1916 no doubt appeared moderately gratifying because equipment, tracks and facilities were fully occupied. Net earnings last year, it must be conceded, made a favorable comparison with those of 1914 and other years of depression. The advance report of the Interstate Commerce Commission for 1916 shows the railroads had net operating income of over a billion dollars. Quickly flashed over the country, the mere recital of these figures created the erroneous impression that the railroads were rolling in wealth. Since then, however, the returns from the industrial companies, with the increased wages and the far higher dividends they have paid, have showed how very modest was the share of the railroads in the general prosperity.

In the matter of profits they have been the merest of amateurs during this war boom!

## Carriers Should Have Reasonable Share in Prosperity.

The railroads are gratified by the business activity of the country, but desire to share to some reasonable extent in the profits of the industries which they are helping to create. That is a fair proposition.

With regard to railroad statistics, a friend of mine warned me always to heed the injunction that is found on passenger ticket coupons—"void if detached." Applied to the billion dollars alleged to be "net income," we find it was really not profit at all, and, therefore, when detached from the question of what return it represented on the money invested in the railroads and equipment, that billion of dollars conveyed no meaning. Yet the same report of the Interstate Commerce Commission showed how small the return represented by that billion dollars really was on the actual investment in the railroad properties, but the fact did not strike the imagination of the public at all.



## Six and Three-tenths Per Cent. Earnings in the Busiest Year of Railroading.

**These magnificent billion-dollar earings yielded just six and three-tenths per cent. on the property investment in railroads and equipment in the most active year in the history of American railroading.**

Watered stock could not enter into this question at all, because this return is not on the capitalization, but on the money actually put into the property.

With earnings such as these, in the greatest year of activity, I ask you to judge whether the railroad outlook is sound when you consider that this represents the full return from the output of the railroads in their most useful period, earned after the most continuous and concerted effort to enforce economies and increase efficiency. We made record car-lading and record train-loads; we have put into use larger locomotives, equipped with superheaters; we have rebuilt and enlarged important terminals; we have reduced grades; we have eliminated curvature. And to what purpose? To earn the maximum of six and three-tenths per cent!

This might be good enough for periods of depression, but surely not for a period of unparalleled prosperity and record business activity.

Until this situation is remedied and the railroads produce a materially increased return, it will be impossible to place them in condition to do their full duty by the public and the country. The railroads of this country have neither the profits nor the credit to keep up with, much less in advance of, the commercial requirements of the Nation.

## Basic Trouble is, Railroad Rates Are Too Low.

You ask what is the cause for this condition and how can it be remedied? The same illuminating report of the Commission, I think, gives the best answer. The average freight revenue per ton mile declined from nine mills in 1891 to seven and three-tenths mills in 1915, or about 19 per cent. In the same period, the purchasing power of money, in property, materials and labor has greatly lessened. Taxes and regulatory laws have increased expenses tremendously, taxes alone having risen from thirty-three millions of dollars in 1891 to one hundred and thirty-



nine millions of dollars in 1915, an increase of 321% and the taxes for 1917 compared with 1916 will show a further increase. Meanwhile, the standards of railroad wages, material costs, equipment and stations are very much higher.

**This proposition of transporting a ton of freight more than five miles—involving a service which includes the use of tracks and costly terminals—in order to earn a profit of one cent, constitutes a situation that must be remedied if the true interests of commerce in this country are to be considered.**

## The Fruits of Ruinous Railroad Competition.

No spirit of philanthropy caused this downward tendency in freight rates, but it resulted from efforts to develop additional industries and markets, and from many years of unrestricted and ruinous railroad competition. Our Federal and State rate-making bodies have never fully realized the reasons for these low rates, nor have they approved of increases in rates sufficient to support the higher living costs of the railroads.

The railroads, under public regulation, have been removed from the usual

market conditions of the manufacturer, who fixes his prices and output on the basis of his costs and the laws of supply and demand, and adjusts his operations accordingly.

The railroads must pay these prevailing prices, but, instead of being able to increase freight rates in such periods of prosperity, when the industries of the country can afford to meet them, the railroads must wait until their situation is so weak that the right to increase their charges cannot be denied.

Then, unfortunately, the industries, themselves, are in no condition to pay such increased rates cheerfully.

The great lack of our present system of public regulation by the State and Federal Governments is that there is no single responsible body to remedy this situation by prompt constructive action.

**Such is the penalty we pay for regulation by forty-eight diversified sets of laws and masters.**

## Prevention of Strikes and Lockouts

The second problem concerning the railroads is the recurring controversies with their employes. This feature is responsible for a great deal of uncer-



tainty in the railroad field. How can the great gulf between railroad employes and their employers be bridged to the satisfaction of the country? Little is heard nowadays about the great railroad strike that threatened a few months ago, but the menace has never been adequately provided against.

The question of the proper settlement of differences between railroads and their employes regarding wages and working hours and conditions is probably one of the most vitally important matters now before the Supreme Court and Congress.

The relations of one and one-quarter million employes to the rest of the country, and the regulation of wages with fairness to all grades of the service, without paralyzing the industry of the country and inflicting want and suffering, especially on the families of the working people, as well as upon all business enterprises, will require courageous statesmanship.

**The efforts of the President to have laws enacted which will prevent future strikes or lockouts until all differences between the railroads and their employes are first laid before the public for**

**review and arbitration are worthy of universal and earnest support.**

As the laws, Federal and State, as well as the public welfare, require the railroad companies to render a continuous transportation service, it should be equally obligatory upon everyone concerned to refrain from disruption of that service.

### Commission Should Recognize Wage Conditions as Affecting Rates.

It is clear to me that the Interstate Commerce Commission, already overburdened with the regulation of rates and tariffs, safety appliance laws, hours of service laws, railroad valuation, uniform accounting, car distribution, and other features, cannot undertake the further responsibility of railroad wage regulation and the adjustment of differences in working conditions, but it should, as a matter of duty, recognize the status of these matters when they affect the question of railroad rates and credit.

**In my judgment the railroad situation will never be satisfactorily settled unless railroad employes and railroad managers get together and loyally support each other. Until that is done the**



**disadvantage of a divided house will keep the railroads a favorite political football.**

### Conflicting Regulation.

The third obstacle confronting the railroads is the numerous conflicting and inconsistent State laws and regulations, and the clash of these with Federal authority. This condition affects the carriers from the time of their incorporation, and subjects practically every element in the transportation service, from such matters as the weight of locomotive bells and the use or the nonuse of cuspidors, screens, etc., to the most minute and unrelated administrative requirements.

Many of these astonishing inconsistencies are such as would cause a pessimist to smile as long as he does not have to pay the bill. There is no humor, however, in the serious question of forty-eight regulators of railway rates, when not more than ten per cent. of the traffic is state traffic.

I do not believe the present efficient and able management of the railroads is on trial, but I am most deeply convinced that what is on trial is the present regulatory system, which tends to waste

and inefficiency. This is the thing that is disparaging the whole system of public regulation of railroads.

### Unscientific System, not State Commissions, to Blame.

These divergent laws and policies of the various states must be enforced by the State Commissions. It is the system and not the State Commissioners which must be blamed for the gradually increasing cost of operating railroad systems, with no one responsible for the net results.

These laws must be harmonized so that railroad development will be pressed forward. Therefore, one of the first remedies the railroads feel should be applied to cure their present unsettled condition is to place the entire system of regulation of the interstate carriers under one Federal body controlling all rates affecting interstate transportation and commerce.

Such a Federal body should be aided and supplemented by regional or district commissions so that the needs of the various parts of the country will be properly considered.



**The central body should have power to prescribe minimum as well as maximum rates. Rate suspensions, in the interest of business and railroads, should not exceed sixty days, so that uncertainties of industries and carriers concerning rates may be of the shortest duration.**

This body must be empowered by law to see either that the railroads have a free hand to make rates in accordance with commercial conditions, or, if the Commission is to make the rates, that they are sufficient to produce an adequate return, not only on the enormous capital already invested in the railroads and equipment, but to give a basis for raising new capital to provide adequate facilities for taking care of increasing needs.

### Uniform Federal Laws Must Govern Financing, Capitalization, and Mergers.

The railroad program also recognizes that there must be Federal supervision over the issuance of railroad securities to take the place of the present diversified state regulation. There should be uniform laws as to the promotion, construction, financing, leasing and merger

of railroads so that the larger interstate carriers can fully develop the territory through which they run. The day of building small branch lines by independent companies is over, because it is rarely that the smaller lines can be self-supporting.

Such smaller lines must be linked with adjoining interstate systems. It is hard to realize that many railroad companies in the State of Pennsylvania today have not the legal power to build the branches which are so urgently needed. The existing companies are therefore obliged to form new companies for that special purpose, and this involves needless waste in organization and administrative efficiency.

It is also equally difficult to appreciate that the laws of New Jersey permit a railroad to take a width of one hundred feet for the running tracks of its line, but that when we reach the border of Pennsylvania, a narrower width is specified. In many other respects, also, the methods of company formation, financing, leasing, etc., are radically different in these two adjoining States through which so many important lines of interstate railroads pass.



I could enlarge upon this by pointing out the differences as to extra crew laws, limitations on financing, etc. I think, however, that I have said enough to show that the difficulties attending our efforts to secure a more responsible source of public regulation, because of diverse State policies, are very serious.

Now, when we consider that a State's decision on rates affects the destinies of other States—for after all ninety per cent. of the total traffic is not state but interstate—I think the conclusion is logical and inevitable that the situation must be taken in hand by a National body, acting for all the States.

## National Charters Needed for Our Interstate Carriers.

The reasons which I have set forth tell why the managements of so many railroads believe that a real cure for the present irresponsible and wasteful system of railroad regulation and control cannot be effected except by Federal charters for all interstate carriers. This proposed change is now on the program for discussion before the Newlands Committee of Congress.

There would still be left a wide field of public service for the States to regulate, such as the hundreds of public utilities exercising purely state functions, and the police and health matters affecting railroads, etc. These would give the State Commissions enough not merely to justify their existence but to place them among the most useful bodies in their respective Commonwealths.

These questions affecting the railroads will come before the Congressional Committee of Inquiry, which was appointed as a result of the President's recommendation, and we ask the full support of the country for that inquiry.

Wages and rates must, I believe, force themselves upon the country for solution before that Congressional inquiry is able to complete its task.

## Railroads Suffering from Growing Pains, not Decline.

However, in spite of all I have said, take no gloomy view of the railroads. They are suffering from growing pains and not from decline. They want to furnish adequate transportation and will respond to the proper prescription.



No measures short of concentrated Federal regulation will afford a permanent solution that will sustain the credit of the railroads, and thus enable them satisfactorily to meet the requirements of the public service. Such a system of National regulation, properly worked out, will permit the railroads continuously to attract the additional capital necessary for the construction of the new mileage, the new equipment and the large terminals now so urgently needed. It will also make it possible for the railroads once more to lead the country in the path of prosperity, and to maintain their position as reliable investments for the savings of our citizens and institutions.

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